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Message Text

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ACTION ARA-10

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FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC PRIORITY 1475

C O N F I D E N T I A L SANTIAGO 9222

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EO 11652: GDS

TAGS: EFIN, CI
SUBJECT: MEETING WITH FINANCE MINISTER CAUAS IN WASHINGTON

REF: STATE 232155

1. CAUAS HAS NOT BEEN IN A PARTICULARLY CONFIDING MOOD LATELY AND HAS BEEN UNCOMMUNICATIVE IN DISCUSSING HIS TRIP WITH US. CONTRARY TO PAST PRACTICE, HE HAS GIVEN US NO INDICATION OF WHAT HE MIGHT WISH TO TAKE UP IN WASHINGTON.

2. IN RECENT CONVERSATIONS, CAUAS' COMMENTS HAVE BEEN BLANT TO THE POINT OF EVASION. EVERYTHING IS ONWARDS AND UPWARDS FOR CHILE. WE UNDERSTAND FROM CHILEANS OF VARIOUS POLITICAL COMPLEXIONS THAT CAUAS IS BECOMING INCREASINGLY UNAPPROACH-ABLE TO THEM. FORMER ACADEMIC COLLEAGUES (AND OLD FRIENDS) ARE TURNED OFF IF THEY TRY TO DISCUSS THE COUNTRY'S STILL UNCERTAIN ECONOMIC CONDITIONS. LAWYERS AND BUSINESSMEN ARE TOLD, RATHER LOFTILY, THAT THEIR TAX CONCERNS ARE "BEYOND DISCUSSION."

3. FOLLOWING ARE SOME OF THE MAJOR ISSUES WHICH MAY ARISE IN THE COURSE OF CAUAS' WASHINGTON CONSULTATIONS:

4. CAUAS IS LIKELY TO OFFER STRONG DEFENSE OF CHILE'S ECONOMIC POLICIES, CITING, INTER ALIA, WALL STREET JOURNAL OF SEPTEMBER 20. HE WILL PROBABLY EXPRESS HOPE THAT ROAD
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BE KEPT OPEN FOR CONTINUING U.S. PRIVATE BANK FINANCING.

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TM CAUAS ALSO LIKELY TO DISCUSS IFI ASSISTANCE, AND U.S. REACTIONS THERETO. WE HAVE IN MIND IDB AND U.S. VOTING POSITION,SAS WELL AS FUTURE IBRD LENDING AND IMF FACILITIES.

6. HE WILL ALSO BE INTERESTED IN BILATERAL ASSISTANCE PROSPECTS IN LIGHT OF CONGRESSIONAL ATTITUDES. (CAUAS KNOWS FY 77 LEVEL, AND SURMISES THAT FY 78 PRESENTATION TO CONGRESS WILL PROBABLY BE AT ROUGHLY THE SAME LEVEL.)

7. ON OUR SIDE, WE WOULD BE INTERESTED IN CAUAS' EXPLANATION FOR CONTINUING THOUGH LOWER INFLATION, HIGH UNEMPLOYMENT, LOW DOMESTIC CAPITAL FORMATION, HIGH INTEREST RATES, AND STRONG ANTI-CAUAS GRUMBLING IN THE BUSINESS SECTOR.

8. OF INTEREST IS THE PROSPECT OF CHILE'S APPARENT INTENTION TO TURN AWAY FROM THE "WEAK, INEFFICIENT" MARKETS OF THE ANDEAN PACT AND TOWARDS CLOSER TIES WITH STRONGER ECONOMIES OF ARGENTINA AND REST OF SOUTHERN CONE, AND ULTIMATELY BRAZIL. THE CHILEAN PRIVATE BUSINESS COMMUNITY VIEWS THIS WITH ALARM. YOU MAY WISH TO DRAW CAUAS OUT ON HOW READY THE DEPRESSED AND INEFFICIENT CHILEAN ECONOMY MAY BE TO MEET STRONGER FOREIGN COMPETITION FROM THESE STATES.

9. YOU MAY WISH TO EXPRESS SOME CONCERN TO CAUAS OVER THE SLOW RATE OF FOREIGN INVESTMENT, GIVEN THE APPARENT IMPORTANCE ATTACHED TO IT BY THE ECONOMIC TEAM. CHILEAN BUSINESS LEADERS ATTRIBUTE LACK OF INVESTOR INTEREST TO A COMBINATION OF PERSISTING INFLATION, POOR INTERNATIONAL IMAGE, ANDEAN PACT DECISION 24, AND ABOVE ALL, CHILEAN BUREAUCRACY.
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